

October 2, 2008

Mary L. Cottrell, Secretary
Department of Public Utilities
One South Station
Boston, MA 02110

**Re: Chapter 169 of the Acts of 2008 - Section 60
National Grid Purchase of Receivables Plan**

Dear Secretary Cottrell:

On behalf of Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid ("National Grid" or the "Company"), I am providing the Company's plan for compliance with the last paragraph of G.L. c. 164, § 1D, as amended by Section 60 ("Section 60") of Chapter 169 of the Acts of 2008 (the "Green Communities Act" or the "Act"). This filing is made in accordance with the directives of the Department of Public Utilities (the "Department"), as set forth in its Letter to Electric Distribution Companies of September 3, 2008.

The last paragraph of G.L. c. 164, § 1D, as amended by Section 60 of the Act, requires National Grid to pay competitive suppliers ("Suppliers") that have chosen to utilize the Complete Billing Method the full amounts due from customers for generation services "in a time period consistent with the average payment period of the participating class of customer, less a percentage of such amounts that reflects the average of the uncollectible bills for the participating classes...and other reasonable development, operating or carrying costs incurred, as approved by the [Department]." Accordingly, the plan set forth below would accomplish a "purchase of receivables" for participating suppliers consistent with the terms outlined in the Act.

I. Overall Methodology

National Grid would accomplish the purchase of receivables ("PoR") through the payment of funds to each participating Supplier in an amount equal to the amount billed by the Company to the Supplier's customers through the Complete Billing Option, less a "PoR Discount." National Grid will purchase the accounts receivables of participating competitive suppliers without recourse in a time period consistent with the average payment period of the participating class of customer, paying the amount which the Company has billed on behalf of the supplier less the PoR Discount. The PoR Discount will be based on the average of commodity-related bad-debt cost for the participating service classes, and would include program development and operating costs such as administrative and collection costs. After

purchasing the receivables, the Company will reclassify the accounts receivables from supplier accounts receivables to a Company accounts receivable. Individual discount factors would be calculated for the residential, commercial and industrial customer classes and reconciled on an annual basis to account for actual experience.

II. Methodology for Calculating the PoR Discount

The PoR discount is designed to recover the commodity-related bad debt costs associated with customers served by suppliers based on the commodity-related bad debt experience of the Company's overall customer base. In addition, the PoR Discount would recover the administrative costs that the Company will incur in order to offer this program. For purposes of determining the PoR Discount for Period 1, i.e., the period not less than 12 months nor greater than 24 months following the commencement date of the PoR Program, the Company proposes to use the net charge-off data for Basic Service customers for a 12-month period ending not more than six months prior to the commencement date of the PoR Program. The Period 1 PoR Discount would remain in effect for at least the 12-month period following the commencement date of the PoR program. On an annual basis, the Company will evaluate the level of the PoR Discount by comparing actual bad debt for the appropriate 12-month period prior to the evaluation to the amount of bad debt recovery through the PoR Discount. Based on that evaluation, the Company may propose to adjust the PoR Discount for the subsequent period to ensure that the PoR Discount in effect during any 12-month period reflects the appropriate level of bad debt incurrence, including the reconciliation of the prior year PoR Discount.

The PoR Discount would also include administrative costs, which are the costs of implementing and operating the PoR Program. Since these costs are not yet known or determinable, the Company proposes that to use an estimate for Period 1 of the PoR based on the amount of administrative costs currently being collected from Basic Service customers for non-bad debt related administrative costs. For the calculation of the Period 2 PoR Discount and subsequent periods, the Company will include an estimate of the annual administrative costs associated with the operation of the program, based on the actual costs incurred during the prior year, along with a reconciliation of estimated to actual administrative costs for the prior year. In addition, the actual cost incurred during Period 1, including the start-up costs of the program, will be tracked and will be included in the subsequent PoR reconciliation.

The Company plans to implement the PoR Program within a reasonable timeframe after receiving an order from the Department approving the Company's program. Within 30 days of receiving the order, the Company will make a compliance filing to propose the actual PoR Discount to be implemented on the commencement date of the program. The methodology used in the calculation will be identical to that described in my testimony, except that the data used in the calculation will be updated.

In terms of timing for changes in the PoR Discount once the program is implemented, the Company proposes to implement each year's new PoR Discount on November 1, coincident with the implementation of new Basic Service rates. Assuming an annual November 1 implementation, the Company would file its proposed PoR Discount by May 1 of each year in

order to provide suppliers with adequate notice of the change in each year's PoR Discount. Depending upon the commencement date of the PoR program, it is possible that the Company may propose to extend Period 1 beyond 12 months in order to coincide with a November 1 implementation of Period 2.

III. Changes to Terms and Conditions

In order to implement the PoR Program as proposed by the Company, it will be necessary to make minor revisions to the Company's Terms and Conditions for Competitive Suppliers and the Terms and Conditions for Green-up Service. Once the Company has received the approval of the Department to implement the PoR Program, the Company will make a compliance filing which will include the revised tariffs and terms and conditions for service referenced above.

In addition, National Grid is in the process of developing a Billing Services Agreement to execute with Suppliers, which will implement the PoR Program. The Company plans to model this agreement after agreements that are in place for National Grid's gas and electric distribution affiliates in New York, which administer similar PoR Programs. Suppliers participating in the PoR Program will not have to execute the Competitive Electric Supplier Services Agreement that is currently in place for all Competitive Suppliers. All components from the Competitive Electric Supplier Services Agreement will be included in the Billing Services Agreement to eliminate the need for two separate agreements.

The Company plans to submit modified terms and conditions and a copy of the new Supplier agreement to the Department review and approval, as appropriate, in the context of any compliance filing that occurs in this proceeding.

IV. Supplier Considerations

The Company's PoR Program would be available to Suppliers who: (1) provide commodity service to retail customers in the Company's franchise territory in Massachusetts, and (2) contract with National Grid to issue a complete or consolidated bill to those customers for all charges for electric service, including both the Company's charges as well as the Supplier's charges.

Suppliers would have the option of billing their customers using either the Complete Billing Method with the PoR Program or the Pass-Through Billing Method for a particular class of customers, but may not use both. Without this requirement, Suppliers could "cherry pick" the best paying customers and exempt them from the PoR Program. The Supplier would have an economic incentive to use the Pass-Through Billing Option for the most creditworthy customers where there is a high probability of collecting 100 percent of the billed charges and reserve the PoR Program for poor payers since the supplier receives certain payment from the Company less the discount based on the class average uncollectible rate. The class average uncollectible rate has been determined based upon the mix of both good paying and poor paying customers in that

class. Allowing the Suppliers to pick and choose the billing method would require constant adjustment of the accounts receivables discount over time as the suppliers continued to increase the proportion of customers with good payment records, for which the Supplier selected Pass-Through Billing Option.

Other Supplier-related considerations include the following:

- In accordance with the Electronic Business Transactions (“EBT”) procedures in place in Massachusetts, the Company will send a “payment/adjustment” transaction to each participating Supplier with information regarding the amount the Company is paying for the Supplier’s accounts receivable.
- National Grid provides a “Rate-Ready”, Complete Billing service for competitive suppliers. Under this service, suppliers provide their rates for Generation Services to the Company, and the Company calculates the supplier charges based on those rates and metered consumption or other factors. The Company will issue a Complete Bill and purchase the resulting receivables only for those Supplier charges for which the Department deems the Company can terminate service if the customer fails to pay.
- Customers of Suppliers who participate in the PoR Program will be billed under the same billing process in effect today. National Grid will continue to process customer payments in the same way. The full amount of a payment will show on the customer’s account. The Company’s general ledger will reflect the amount split between delivery service and purchased Generation Service based upon the normal cash posting process. Partial payments will be allocated as required by D.T.E. 01-28.
- National Grid plans to respond to general inquiries and complaints from Supplier’s Complete Bill customers about National Grid’s services, charges and billing procedures as it does today. Complaints related to Supplier rates, charges, and services will be referred by National Grid to the Supplier.
- Upon implementation, the Supplier will notify its Complete Bill customers that National Grid will have the right to disconnect service to customers failing to pay the Supplier’s Generation Service charges on the Complete Bill. National Grid will provide customers with all other required notifications associated with suspension or disconnection of service. The Supplier will be required to assign to National Grid its right to seek suspension of Generation Service for the Complete Bill customer’s failure to pay. National Grid will be the exclusive collection agent for those accounts. This exclusive control over collection activity is another benefit associated with PoR Program. Customers avoid collection activity from two parties, National Grid and the Supplier, and also maintain their customer protections, including those provided by the Department’s billing and termination regulations.
- The Company’s Billing Service Agreement will include a process which the Supplier must comply with in the event a Customer disputes a Supplier’s charges. National Grid may bill Supplier the disputed amounts if Supplier fails to follow the required process.

- At the time National Grid purchases the Suppliers' accounts receivables, it will reclassify the accounts receivables from supplier accounts receivables to a Company accounts receivable. The Company will establish separate accounting to record the accounts receivables under PoR Program separately from accounts receivable for non-participating competitive suppliers. When a PoR Program customer fails to make a payment for an amount billed and ultimately purchased by the Company, and the account is final billed sixty-one cycles later, the balance due on the account will be charged off. The delivery service accounts receivable will be charged against the allowance for uncollectible accounts. The purchased commodity accounts receivable will be charged against a separate account which will be used as the basis for assessing net charge-offs in future years.

V. Other Comments

The Company's purchase of receivables plan is based on the plan in place for Niagara Mohawk, which is an operating affiliate of the Company. There are currently 31 competitive electric suppliers and 24 gas suppliers participating in that program. National Grid is also in the process of implementing PoR Programs in its KeySpan New York and KeySpan Long Island territories.

In addition, it is possible that the sale of National Grid's accounts receivable to an affiliate may facilitate the implementation of the program, reduce administrative costs, and allow National Grid's other utility affiliates to use the same approach. Thus, National Grid wishes to retain the right to purchase accounts receivable through an affiliate.

VI. Conclusion

Pending further guidance from the Department, the Company is planning to continue its work on implementation of the purchase of receivables program, including development of terms and conditions and the new Supplier service agreement. The Company anticipates that it would be prepared to implement the program within a reasonable timeframe of the Department's approval of the plan, if the plan is adopted as proposed.

The Company greatly appreciates the opportunity to participate in the Department's efforts to ensure compliance with the provisions of the Green Communities Act.

Very truly yours,


Amy G. Rabinowitz

cc: Jed Nosal, Office of the Attorney General